Minutes for October 4, 1960

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, please initial below. If you were present at the meeting, your initials will indicate approval of the minutes. If you were not present, your initials will indicate only that you have seen the minutes.

Chm. Martin
Gov. Szymczak
Gov. Mills
Gov. Robertson
Gov. Balderston
Gov. Shepardson
Gov. King
Minutes of the Board of Governors of the Federal Reserve System on
Tuesday, October 4, 1960. The Board met in the Board Room at 12:00 noon.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. King

Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thomas, Adviser to the Board
Mr. Young, Adviser to the Board
Mr. Noyes, Director, Division of Research and Statistics
Mr. Johnson, Director, Division of Personnel Administration

Messrs. Bopp, Allen, Deming, and Mangels, Presidents of the Federal Reserve Banks of Philadelphia, Chicago, Minneapolis, and San Francisco, respectively
Messrs. Treiber and Patterson, First Vice Presidents of the Federal Reserve Banks of New York and Atlanta, respectively
Mr. Mitchell, Vice President, Federal Reserve Bank of Chicago

Report on program of fellowship awards. In 1957 the Board approved, on a three-year trial basis, a program proposed by the Federal Reserve Bank of Chicago involving fellowship awards to graduate students in money and banking, the primary purpose of the program having been to assist the Reserve Bank in recruiting professional staff for the research function. An oral progress report on the program was made to the Board by an officer of the Reserve Bank in February 1959, and pursuant to arrangements between President Allen and Chairman Martin a further report was made at this time.
As background, there were distributed copies of a memorandum dated September 29, 1960, reviewing the results of the program and presenting certain information concerning the cost thereof.

Following comments by Vice President Mitchell based on information contained in the memorandum, and a summarization by President Allen, there was a general discussion of the program. During that discussion, reference was made to the effect of the program in terms of augmentation of the research staff at the Chicago Reserve Bank, it being noted that four of the 12 persons who had completed the program were now working in the Bank's Research Department while the others were following careers in teaching, in public service, or in private industry. In summary, it was the conclusion of Messrs. Allen and Mitchell that the program had been successful, not only as a method of recruiting qualified staff members but in other respects, such as improving contacts with universities and affording training in the field of money and banking to a selected group of graduate students. While, for reasons stated, it had been decided to establish a budget for the current year calling for only three new participants in the program, rather than four, it was indicated that another person might be added if four highly qualified applicants should appear.

Comments by members of the Board indicated that they were favorable to continuation of the program and regarded the benefits derived from it as fully sufficient to warrant the cost involved, which had been in the area of $25,000 per annum. Certain questions were raised with regard to
the possible adoption of similar programs by other Federal Reserve Banks and also as to the possibility that the Chicago Bank, which is located in a District where eleven universities grant a doctor's degree in economics, might advise other Reserve Banks of the availability of graduate students not selected to participate in its program. In this connection, reference also was made to the fact that at least one other Reserve Bank (New York) was following a program of encouraging graduate work on the part of members of its staff. The St. Louis Reserve Bank, it was noted, had reportedly experienced difficulty in locating qualified graduate students for participation in a program similar to that now being carried on by the Chicago Bank.

President Allen stated that in the absence of objection on the part of the Board the Chicago Reserve Bank would continue its fellowship award program along the lines described, and no objection was indicated. It was understood that the Board would give consideration to the distribution of the memorandum of September 29, 1960, to all of the Federal Reserve Banks for their information and such use as they might care to make of it.

Messrs. Bopp, Allen, Deming, Mangels, Treiber, Patterson, and Mitchell then withdrew. Messrs. Thomas, Young, Noyes, and Johnson also left the room at this point and Messrs. Solomon, Director, Division of Examinations, Hackley, General Counsel, and Hexter, Assistant General Counsel, joined the meeting.
Application of First National Bank of Boston (Item No. 1).

The First National Bank of Boston, Boston, Massachusetts, had applied to the Board for permission to organize a corporation under section 25(a) of the Federal Reserve Act, to be known as Boston Overseas Financial Corporation, to engage in international or foreign financial operations other than banking. It had also requested permission for Boston Overseas to invest up to $1,500,000 in the stock of Massnat Corporation, a corporation to be organized under the laws of the Republic of Panama, and for Massnat Corporation to invest up to $1,500,000 in the stock of a corporation to be organized under the laws of Argentina, to be known as Corporacion Financiera de Boston. The Federal Reserve Bank of Boston recommended favorably, and the Division of Examinations likewise recommended favorably, subject to conditions set forth in a draft of letter to the attorneys for The First National Bank of Boston which had been distributed to the Board with a memorandum from the Division dated September 30, 1960.

The Office of the Comptroller of the Currency and the Department of State had indicated that they saw no objection to the approval of the application. However, in view of certain aspects of the proposal, the Department of State had referred the matter to the Treasury Department, and this had resulted in receipt by the Board of a letter dated September 30, 1960, from Mr. Jay W. Glasmann, Assistant to the Secretary of the Treasury, who called attention to tax considerations involved in the
organization of foreign holding companies and indicated the possibility that within the next few years the Congress might enact legislation looking toward curtailment of tax avoidance. Thus, although the Treasury perceived no legal ground for opposing the organization of foreign holding companies, the letter suggested that American enterprises planning to establish such companies and regulatory agencies such as the Board of Governors would be well advised to keep in mind potential changes in the tax laws.

In discussion of the application of The First National Bank of Boston, Governor Mills stated that he concurred in the favorable recommendations of the Boston Reserve Bank and the Division of Examinations but that he would like to raise certain points for consideration. His first suggestion was that the Board's letter concerning the application be addressed to the applicant bank rather than to its attorneys, and there was agreement with this suggestion.

Governor Mills then noted that, as the proposed letter was drafted, neither Massnat Corporation nor Corporacion Financiera de Boston would be permitted to make loans to and investments in any one person or government in amounts which, combined with the amounts of loans to and investments in such person or government by Boston Overseas Financial Corporation and the other subsidiary (Financiera or Massnat as the case might be), would be in excess of the amount permitted to Boston Overseas Financial Corporation. This point, he brought out, had been raised in other cases
and remained under consideration by the Board. However, if such corporations were willing to take the risks involved in granting larger extensions of credit, he would have some hesitation in restricting them. In this particular case, the restriction might be a substantial handicap because finance company operations were contemplated and that type of business customarily involves operating on a minimum amount of capital and a substantial amount of borrowed funds.

Governor Mills also referred to the fact that in certain cases the Board had granted to Edge Act corporations general consent to make investments, within certain limitations, without coming to the Board of Governors for specific permission, whereas it appeared such general permission was not to be given at this time to Boston Overseas Financial Corporation.

With regard to the first of the two questions of restriction raised by Governor Mills, Governor Szymczak commented that the general problem continued under study by the Board's staff in cooperation with the New York Reserve Bank, that the subject would be presented to the Board as soon as possible for further consideration, but that in the meantime the position taken in the proposed letter to the applicant in this case was in accord with the position taken by the Board in respect to all Edge Act corporations.

As to the second question of restriction raised by Governor Mills, members of the staff pointed out that the provisions of Regulation K
call for applications for general consent to be instituted by an Edge Act corporation, that Boston Overseas Financial Corporation would be free to submit such an application, and that attorneys for The First National Bank of Boston were familiar with the provisions of the Regulation.

Consideration then was given to the letter from the Assistant to the Secretary of the Treasury, and it was brought out that nothing in the letter formed a basis for disapproval of the current application. Further, it was felt that the attorneys for The First National Bank of Boston, like other lawyers specializing in this field, were fully familiar with the tax laws and the possibility of their revision. In the circumstances, it was concluded that no worthwhile purpose would be served by incorporating reference to the Treasury letter in the Board's letter to The First National Bank of Boston concerning the current application. Nevertheless, in order that the applicant bank might be fully informed, it was understood that the Board's staff would advise attorneys for the bank informally concerning the substance of the information set forth in the Treasury letter.

In further discussion, it was agreed that no reply to the Treasury letter was called for, and that it did not seem incumbent upon the Board to advise Edge Act corporations generally of the content of the letter.

Unanimous approval then was given to the proposed letter to The First National Bank of Boston, a copy of which is attached as Item No. 1,
transmitting a preliminary permit authorizing Boston Overseas Financial Corporation to exercise certain powers incidental and preliminary to its organization.

The meeting then adjourned.

Secretary's Note: Governor Shepardson today approved on behalf of the Board acceptance of the resignation of Carolyn Anne Beck, Statistical Assistant, Division of Research and Statistics, effective October 28, 1960.
The First National Bank of Boston,  
67 Milk Street,  
Boston 6, Massachusetts.

Gentlemen:

The Board of Governors has approved the Articles of Association and the Organization Certificate, dated September 9, 1960, of Boston Overseas Financial Corporation, and there is enclosed a preliminary permit authorizing that Corporation to exercise such of the powers conferred by Section 25(a) of the Federal Reserve Act as are incidental and preliminary to its organization. As you are aware, the Corporation may not exercise any of the other powers conferred by Section 25(a) until it has received a final permit from the Board authorizing it generally to commence business. The steps which must be taken prior to issuance of a final permit are enumerated in Section 3(c) of the Board's Regulation K.

Consideration has been given by the Board of Governors to the request contained in Mr. Damon’s letter of September 9, 1960, transmitted through the Federal Reserve Bank of Boston, for the Board’s consent for (1) Boston Overseas Financial Corporation ("Overseas"), upon organization, to purchase and hold 15,000 shares of capital stock, par value US$1.00 per share, of a corporation to be organized under the laws of the Republic of Panama, and to be known as Massnat Corporation ("Massnat") in the aggregate amount of $1,500,000 and (2) Massnat to invest up to US$1,500,000 in the stock of a finance company to be organized under the laws of Argentina, and to be known as Corporacion Financiera de Boston ("Financiera").

In the event Overseas invests in Massnat and Massnat in turn invests in Financiera, neither Massnat nor Financiera should be permitted to make loans to and investments in any one person or government in amounts which, combined with the amounts of loans to and investments in such person or government by Overseas and the other subsidiary (Financiera or Massnat, as the case may be), would be in excess of the amount permitted to Overseas. For example, if total liabilities of one borrower to Overseas were limited under Section 10(a) of Regulation K to $1,000,000, such limitation would apply to the aggregate liabilities of such borrower to any or all of the three corporations above named. Accordingly, should the proposed arrangements for investment in and establishment of Overseas, Massnat, and Financiera be completed, the limitations on Overseas would be applicable to the loans and investments of all of said corporations on a combined basis.
Upon the completion of the organization of Overseas, the Board of Governors would be prepared to grant its consent and approval, for the purposes of Sections 9(c), 9(d)(2), and 10(a) of Regulation K, to

(a) Overseas to purchase and hold shares of capital stock of a corporation to be formed under the laws of the Republic of Panama and to be known as Massnat Corporation, provided the aggregate investment (including all loans to such subsidiary) may not exceed US$1,500,000; and

(b) Massnat to purchase and hold shares of capital stock of a corporation to be formed under the laws of the Republic of Argentina to be known as Corporacion Financiera de Boston provided the aggregate investment (including all loans to such subsidiary) may not exceed US$1,500,000.

The Board's approval of the proposed investment in Massnat would be given subject to the following conditions:

(1) Such investment shall be made within one year from the date of this letter and the Board of Governors shall be informed, through the Federal Reserve Bank of Boston, when such investment is made, together with pertinent details regarding such investment.

(2) Massnat shall carry on its business in accordance with sound financial policies, including, among others, (a) appropriate diversification of its loan and investment portfolios so as to avoid undue concentrations in loans to, and investments in, individual enterprises, industries, or otherwise, and (b) proper regard to the relationship between its assets and the maturities of its obligations so as to give reasonable assurance that the corporation will be in a position to pay its obligations as they mature.

(3) So long as Overseas is the controlling stockholder in Massnat, Massnat will make no investment in the stock of other corporations except after the consent of the Board of Governors has been obtained in the same manner as provided by Section 9(c) of Regulation K for Financing Corporations.

(4) Overseas shall not purchase or hold any stock in Massnat (a) if Massnat at any time fails to restrict its activities to those permissible to a corporation in which Overseas, with the consent of the Board of Governors, may purchase and hold stock under Section 25(a) of the Federal Reserve Act or the regulations thereunder, or (b) if Massnat, except with the
consent of the Board of Governors, establishes or relocates any branch or agency, or takes any action or engages in any operation, in Panama or elsewhere, which at that time could not be taken, or engaged in, by Overseas itself.

(5) Overseas will be expected to dispose of its holdings of stock of Massnat, as promptly as practicable, in the event that Massnat should at any time (a) engage in issuing, underwriting, selling, or distributing securities in the United States; (b) engage in the general business of buying or selling goods, wares, merchandise, or commodities in the United States or transact any business in the United States except such as is incidental to its international or foreign business; or (c) conduct its operations in a manner inconsistent with Section 25(a) of the Federal Reserve Act or regulations thereunder.

(6) When required by the Board of Governors, Overseas will cause Massnat to permit examiners appointed by the Board of Governors to examine Massnat and its branches and agencies, and to furnish the Board of Governors with such reports as it may request from time to time.

The Board's approval of the proposed investment by Massnat in Financiera would be given subject to the same conditions as specified above with regard to the investment by Overseas in Massnat to the extent applicable.

It is understood from Mr. Damon's letter of September 9, 1960, that for the time being Overseas and Massnat will function solely as holding companies and that, if and when you are ready to have either Overseas or Massnat engage in other types of business or make other investments than those specifically authorized above, further application will be made to the Board.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Preliminary Permit

IT IS HEREBY CERTIFIED that the Board of Governors of the Federal Reserve System, pursuant to authority vested in it by Section 25(a) of the Federal Reserve Act, as amended, has this day approved the Articles of Association and Organization Certificate, dated September 9, 1960, of BOSTON OVERSEAS FINANCIAL CORPORATION duly filed with said Board of Governors, and that BOSTON OVERSEAS FINANCIAL CORPORATION is authorized to exercise such of the powers conferred upon it by said Section 25(a) as are incidental and preliminary to its organization pending the issuance by the Board of Governors of the Federal Reserve System of a final permit generally to commence business in accordance with the provisions of said Section 25(a) and the rules and regulations of the Board of Governors of the Federal Reserve System issued pursuant thereto.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

By (Signed) Kenneth A. Kenyon
Assistant Secretary.